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ABSTRACT

Public Law 81-874, enacted by Congress in 1950, allowed distribution of direct federal financial assistance to local public school districts serving children of parents who either lived or worked on tax-exempt federal property. The law, as subsequently amended, divides the affected children into Category A (students whose parents both reside on federal property and are federally employed in either a military or civilian capacity) and Category B (students whose parents either reside on, or are employed on, federal property, but not both). This study assessed the local economic effect of impact aid payments for Category B students through a comparison of federal 81-874 aid reimbursements and per pupil contributions made by property taxes generated in the four North Dakota school districts enrolling the largest number of Category B students. Data from the study are presented through a series of tables showing, for each district: (1) Category B federal reimbusements per student and percent of change since 1980; (2) impact aid, by district, by category; and (3) commercial property taxes raised locally for nonfederally connected students in 1985. Comparisons made from the data presented indicate that commercial property owners in the local school districts contribute amounts far in excess of the federal government's Category B reimbursements to local school districts. The study concludes with a recommendation that Congress appropriate additional funding in support of Category B students, to alleviate the burden on state and local financial resources. (TE)

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FEDERAL SUPPORT FOR THE "CATEGORY B" STUDENT UNDER PUBLIC LAW 81-874

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Federal Support for the "Category B Student"
Under Public Law 81-874

After World War II, Congress recognized that the ability of many local public school districts to generate revenue through the taxation of property had, in many cases, been substantially reduced by the national acquisition of non-taxable, federally-owned property. Valuable land, building sites, and buildings were removed from the tax rolls at a time when American public schools were struggling to accommodate exploding enrollments.

Public Law 81-874, enacted by Congress in 1950, allowed distribution of direct federal financial assistance to local public school districts which were then providing educational services to children of parents who either lived on or worked on federal property. While the framers of the statue recognized that federal installations throughout the nation were a necessity, they realized that the presence of federal installations also frequently brings special burdens to local public school districts. Among those burdens is the loss of locally generated revenue which occurs when private property is turned over to the government for public purposes. The purpose of this statue, then, was to insure adequate fiscal support for the public education of federally dependent children through the provision of direct aid payments to school districts intended as income in lieu of income lost from local property taxes. The provisions of the statute have their greatest effects on public school districts located on U.S. Government military installations and those located on or near federal trust land (i.e., Indian reservations, Bureau of Reclamation sites, and large federal building installations). Public Law 81-874 simply states,

> Congress declares it to be the policy of the United States to provide financial assistance for those local educational agencies upon which the United States has placed financial burden by reason of the fact that:
>
> 1. revenue sources have been reduced as the result of the acquisition of real property by the United States; or
>
> 2. such agencies provide education for children residing on federal (military or Indian) property; or
>
> 3. such agencies provide education for children whose parents are employed on federal property; or
>
> 4. there has been a sudden and substantial increase in school attendance as the result of federal activities.

Through the years, PL 81-874 has been amended to more adequately reflect the financial impact of federally-connected children in a public school district and corresponding modifications have been made in the statutes specifying funding levels. For example, the first classification of students eligible for funding are those parents who both live and work on federally owned or controlled property which is tax exempt. The impact such students bear on the financial condition of a school district--the impact on the district's ability to generate local revenue--is obvious since the parents of these

students represent absolutely no source of local funding for the local school district. The law refers to these students as "Category A." A classification system for Category A students further categorizes the financial impact of students in the category:

Military A: Students residing on federal lands, and having a parent on active duty in the uniformed services. For the purposes of determining entitlement, students residing on Indian lands are counted as Military A.

Military A, Public Housing: Students residing in a federally supported public housing project and having a parent on active duty in the uniformed services.

Civilian A: Students residing on federal property and having a parent employed on federal property (but not on active duty in the uniformed services) within the state of residence.

Civilian A, Public Housing: Students residing in a federally supported public housing project, and having a parent employed on federal land (but not on active duty in the uniformed services) within the state of residence.

A second classification of students includes those whose parents either live on but are employed off of federal property, or those who live off but are employed on federal property; these students are identified as "Category B." In consideration of the assumed actual financial impact of federally dependent students on local public school districts, Public Law 81-874 provides less direct financial assistance for Category B students than it does for Category A. As is true with Category A, several sub-categories have been established for Category B:

Military B: Students having a parent on active duty in the uniformed services but not residing on federal property.

Civilian B, In County: (1) Students having a parent employed on federal property (but not on active duty in the uniformed services) within the same county as the students' school district. (2) Students residing on federal property (but not having a parent employed on federal property). (All students residing on federal property, regardless of the location of the property, qualify for this category.)

Civilian B, Public Housing: (1) Students residing in a federally supported public housing project, but not having a parent employed on federal property within the state of residence. (All students residing in federally supported housing, regardless of the location of the project, qualify for this category.) (2) Students of parents employed in federally supported public housing projects within the county of school attendance.

Civilian B, Out-of-County: (1) Students having a parent employed on federal property in the same state but not within the same county as the student's school district; students whose parents are not actively on duty in the uniformed services and who are not residing on federal property are excluded. (2) Students of parents employed in federally supported public housing projects outside the county of school attendance.

Public Law 81-874 impact aid is distributed to almost 3,100 public school districts. Aid disbursements are based upon an established percentage of the state-wide average of

the local education agency (LEA) actual per pupil cost--the Local Contribution Rate (LCR). The LCR is that portion of the total per pupil cost not supplied by the state and which must be generated through local taxation. The percentage of the LCR paid to the LEA varies according to the categorical type of the pupil and ranges from a high of 50 percent of the per pupil cost to a current low of 1.6 percent.

Since 1981, Congressional budget appropriations for impact aid have not been adequate to provide full-funding under the provisions of P.L. 81-874, as amended. Currently, appropriated funds amount to less than 50 percent of those necessary to satisfy the requirements of the act. For example, in fiscal year 1985, Congress appropriated $730 million to fund P.L. 81-874; if the federal budget were to fund the law as originally intended--and as currently provided for in the amended statute--an appropriation of $1.2 billion would have been necessary. Current appropriations limitations have resulted in unfortunate modifications of the funding formulae which result in a sizable discrepancy between the funding of Category A and Category B students; while Category A students were funded at a rate as high as $1,430 each in 1986; Category B payments were as low as twenty-two dollars each.

The purpose of this study was to assess the local economic effect of impact aid payments for Category B students through a comparison of federal 81-874 aid reimbursements and per pupil contributions made by taxes generated from local rural and city commercial taxable valuations in four selected North Dakota school districts--those four districts in the state enrolling the largest number of Category B, federally dependent children. The need for this study was determined by the fact that reimbursement rates for Category B students have been steadily reduced from the 1981 amount of $368 each to a projected 1987 payment of $25.

Approximately one-fifth of North Dakota's school children attend public school districts which receive impact aid under the authorization of Public Law 81-874. Following a period during which public education was financed more through state foundation aid payments to local districts and less through reliance on locally generated funds, the state has reduced foundation aid payments. The current depressed state of the agricultural and energy economies--two areas upon which North Dakota has heavily relied to produce state-level revenue--and the expectation of continued depression in these areas have lead to speculation that state foundation aid will continue to decrease and that local public school districts will be forced to substantially increase local property taxes in order to maintain an adequate level of income. Since public schools which receive impact aid under P.L. 81-874 do so because of the presence of a disproportionate share of federal tax-exempt land the real and proposed reductions in funding place many school districts in a severe financial position. While on one hand the state reduces its share of funding for public education--an action which most school districts can accommodate through the unpleasant but possible alternative of increasing local taxes--the federal government is also reducing its commitment to provide funds to offset the financial impact of federally dependent students. In some districts which enjoy a substantial federal presence, there is too little remaining locally taxable property from which the district can generate school revenue.

One North Dakota school district provides an example of a school system which is severely affected by changes in appropriations for Public Law 81-874. In 1986, the district enrolled 175 federally-connected students which represented 88 percent of the district's total enrollment. Since virtually all of these students live on tax-exempt federal land, the local fund-generating resources which this district to draw from are limited. This district simply cannot afford to receive less-and-less aid from both the

State of North Dakota and the federal government while it continues to do business as usual.

The data in Table 1 illustrate the federal reimbursements for P.L. 81-874 Category B students made to public school districts in the State of North Dakota during the years of 1980 through 1984. An examination of the data shows the substantial decreases in reimbursement for Category B students when compared to the 1980 base payments. For the Civilian B student, the reimbursement in 1981 was $77.73, or 20 percent less than the reimbursement of the previous year. The decrease in reimbursement for Military B students from 1980 to 1981 was 19 percent with a $207.48 payment in 1980 compared to $167.94 for 1981. In 1983, the reimbursement for Civilian B students declined to a rate 82 percent less than of 1980 while payments of $15.35 for Military B students rated a 90 percent decline.

Table 1

PL 81-874 Category B Reimbursements
School Districts of North Dakota

Year	Reimbursement	Percent of Change Since 1980
Civilian B Students:		
1980	$ 97.77	
1981	77.73	20% decrease
1983	13.85	82% decrease
1984	21.45	78% decrease
Military B Students:		
1980	$ 207.48	
1981	167.94	19% decrease
1983	15.37	90% decrease
1984	23.84	88% decrease

Table 2

PL 81-874 Impact Aid, By District, By Category
1984-1985

Classification	Enrollment	A.D.A.	$ Reimbursement Per Pupil in A.D.A.	Total $
School District #1				
Public Housing	284	258.50	21.46	5,547.41
Civilian B	543	494.24	21.46	10,606.39
Military B	60	54.61	23.85	1,302.44
School District #1 Total				17,456.24
School District #2				
Public Housing	165	150.76	21.46	3,235.30
Military B	50	45.68	23.85	1,089.46
Civilian B, In-County	348	317.96	21.46	6,823.42
Civilian B, Out-of-County	27	24.67	19.07	470.45
School District #2 Total				11,618.63
School District #3				
Public Housing	134	126.21	21.46	2,708.46
Military B	365	343.80	23.85	8,199.63
Military B, Special Ed.	24	22.60	35.76	808.18
Civilian B	399	375.82	21.46	8,065.10
Civilian B, Residing on Federal Property	5	4.70	21.46	100.86
Military A	1,813	1,707.70	1,430.00	2,442,864.80
Military A, Special Ed.	143	134.69	2,145.75	289,011.06
School District #3 Total				2,751,757.90
School District #4				
Military B	247	222.24	23.85	5,300.42
Military B, Special Ed.	23	20.94	35.76	748.81
Civilian B	390	355.22	21.46	7,623.02
Military A	1,587	1,445.48	1,430.50	2,067,759.10
Military A, Special Ed.	203	184.89	2,145.75	396,727.71
School District #4 Total				2,478,159.00

During the 1984-85 school term, School District #1 enrolled a total of 887 Category B, federally-connected students. Table 2 identifies those students by number of enrollment, average daily attendance (A.D.A.), classification, reimbursement, and total dollar amounts received per classification. Reimbursements were paid to the district for low rent housing students totalling $5,547,41. Civilian B students whose parents either live on or work on federal property were reimbursed at the same rate for a total group payment of $10,606.39. Military B students were reimbursed at a slightly higher rate; based upon an average daily attendance of 54.61 units, the payment for Military B students totalled $1,302.44.

School District #1 levied 179.87 mills on rural and commercial taxable valuations within the county. (Note: In North Dakota, individuals pay either 9 or 10 percent of the calculated rate.) In Table 3, data is presented to illustrate what those tax dollars from taxable valuation meant to the district. The table identifies the commercial taxable valuation within the county, mills levied by the school district, total dollar amounts generated from commercial taxable valuation, total enrollment in the district--less those federally-connected Category B students identified in Table 2, and the per pupil contribution made for those non-federally-connected students within the district.

Table 3

Dollars Raised Locally Through Tax on Commercial Property for Non-Federally Connected Students (Per Pupil Contribution) By School District, 1985

Commercial Taxable Valuation	Mills Levied	Tax Dollars	Enrollment (Non-federal connected)	Per Pupil Contribution
School District #1				
$30,548,796	179.87	5,494,811	7,689	$ 714.63
School District #2				
$24,304,508	183.18	4,452,100	8,141	$ 529.13
School District #3				
$15,691,920	141.21	2,215,856	4,942	$ 448.37
School District #4				
$16,892,407	157.80	2,665,622	6,088	$ 437.85

School District #1 enrolled 8,476 students during the 1984-85 school year, 887 of these were federally-connected Category B students under P.L. 81-874. Thus, 7,689 non-federally connected students were funded by the local commercial taxes at a rate of $714.63 per pupil. However, when compared to the average per pupil reimbursement of $22.25 made for federally-connected students in Category B, the local commercial effort of $714.63 per pupil represents a $692.38 higher contribution--local commercial enterprises are paying more than thirty times what the federal government is willing to pay to support the education of its own federally-connected students. It is apparent

that local business enterprises in the four school districts of the study are more willing than the federal government to fund education at a reasonably adequate per pupil rate.

There were 592 federally-connected Category B students enrolled in School District #2 during the 1984-85 school term. These federally-connected students included four classifications: Low Rent Housing; Military B; Civilian B, In-County; and Civilian B, Out-of-County. Table 2 illustrates not only the classification of those federally-connected students attending School District #2 but also enrollment numbers, average daily attendance, reimbursement rate by classification, and total dollar amounts generated by each classification.

Data on dollar amounts indicates that once again an inequitably low total of $11,618.63 was paid by the federal government to support educational services provided to federally-connected students. The total Category B reimbursement amount of $ 11,618.63 was based upon an average daily attendance of 539.07 Category B students with reimbursement amounts varying by classification and ranging from a low of $19.07 to a high of $23.85.

In School District #2, the rural and city property tax on commercial property produced substantial funds in 1985. The school district established a levy of 183.18 mills upon the commercial taxable valuation. Table 3 illustrates the impact of these dollars and shows the per pupil contribution for all non-federally-connected students.

Comparisons made when observing data presented for School District #2 in Tables 2 and 3 reveal wide-ranging support payment differences. Based upon tax contributions by commercial property owners within the district, non-federally-connected students are being supported at a rate of $529.13 each while the federal government is reimbursing the district at an average rate of $21.46 for each federally-connected student. It would certainly appear that the federal government has abrogated its original commitment to reimburse public school districts for all Category B students an amount equal to one-half of the state-wide average local per pupil contribution rate.

School District #3 differs from the first two districts in that a large military installation is located approximately fifteen miles from the city. The presence of this installation--which employs approximately 7,000 people--explains the school district's enrollment of almost 3,000 federally-connected students. Classifications not found in the first two districts in the study are included in School District #3 and are reported in Table 2. These are Military A; Military A, Special Education; and Civilian B, Residing on Federal Property. Special attention should be given to the reimbursements made for Military A and Military A, Special Education. During the 1984-85 school term, the federal government reimbursed School District #3 over $2.7 million for services provided to 2,883 federally-connected students. This group included 927 Category B students which represented 32 percent of the total. However, payments for these Category B students accounted for only 7 percent of the impact aid disbursed to the district.

The original Congressional debate on P.L. 81-874 and the subsequent enactment of the statute establishe the premise that it was the government's intention to fund Category B federally-connected students at one-half of the local contribution rate and Category A students at the full rate. This premise is supported by the fact that the original appropriation provided for such funding. Analysis of the federal reimbursements made to School District #3 during the 1984-85 school term highlight the disparity which has developed between funding for A and B students. In this instance, if the government were to fulfill its original promise of funding Category B students at one-half of the local contribution rate (calculated on a state-wide basis using state-wide averages), the

current North Dakota local contribution rate of $1,430.50 would bring about a federal support payment of $715 per B student.

The enrollment of School District #4 is similar in character to that of District #3 and includes a large proportion of federally-connected students. Of the total 8,538 students enrolled in the district during the 1984-85 school term, almost 30 percent were classified as federally-connected. Most of these are children of parents who are affiliated with another large military base. Table 2 reveals that a total impact aid reimbursement of $2,478,159 was received for the 1984-85 school term. While Category B students comprised approximately 36 percent of the total number of federally-connected children, the B category accounted for less than 1 percent of the total reimbursement payment ($13,672.25).

Although Public Law 81-874 has been amended over time and has become somewhat complicated and often misunderstood, it originated from a very fundamental concept. That is, it originated from the belief that the federal government had an obligation to financially reimburse local public school districts for lost revenue due to a local federal presence. This principle was supported by the government's desire to insure that an adequate standard of education be available to all federally-connected children, regardless of national geographic location. Over a long period of time, most severely of late, payments under P.L. 81-874 for Category B students have declined markedly. In one case--that of the Military B--payments have declined form $207 in 1980 to a current rate of $24.

In the four North Dakota school districts examined in this study, commercial property owners paid--on the average--$532 per pupil to support non-federally-supported students. At the same time, the federal government was reimbursing districts an average amount of approximately $24 for Category B students. That is, the commercial property owners in the four study districts provided educational contributions twenty-two times in excess of the federal government's support for its own federally-connected students.

Comparisons made from the data presented indicate that commercial property owners in the local school districts are forced to contribute amounts that are far in excess of the federal government's Category B reimbursements to local school districts. It is apparent that the federal government does not consider Category B students to be a financial burden to local school districts and that the government is no longer committed to satisfying its once held obligation of providing reimbursement funding in lieu of taxes for the education of its federally-connected Category B children. Therefore, it is concluded that unless Congress appropriates additional funding to support federally-connected Category B students, (1) that the burden of financing services for these students will fall to homeowners and commercial property holders through increased local tax levies, and local taxpayers will be forced to subsidize unfairly and disproportionately an obligation which should be shared by the entire nation; and (2) that during a period of severely restricted state and local financial resources, some public school districts may well be forced to initiate fiscally determined reductions in staff, curriculum, and student services simply because of their inability to assume the federal government's responsibility for financing federally-connected students.